

Graduate School of Economics



Kyoto University

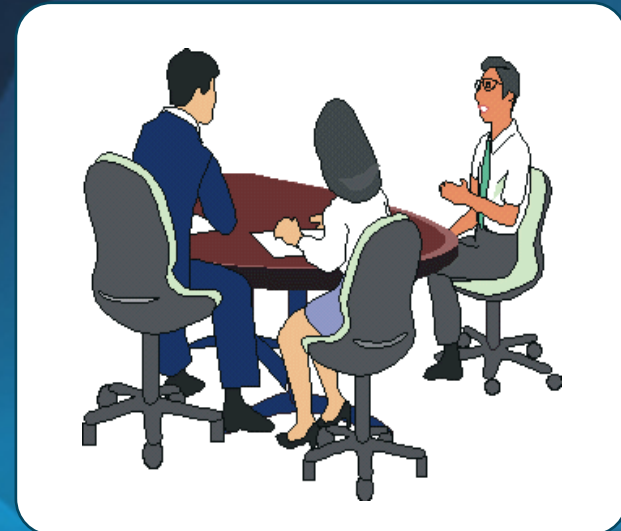
Management Communication B

# BUSINESS NEGOTIATION

Week 2

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# Today's Topics

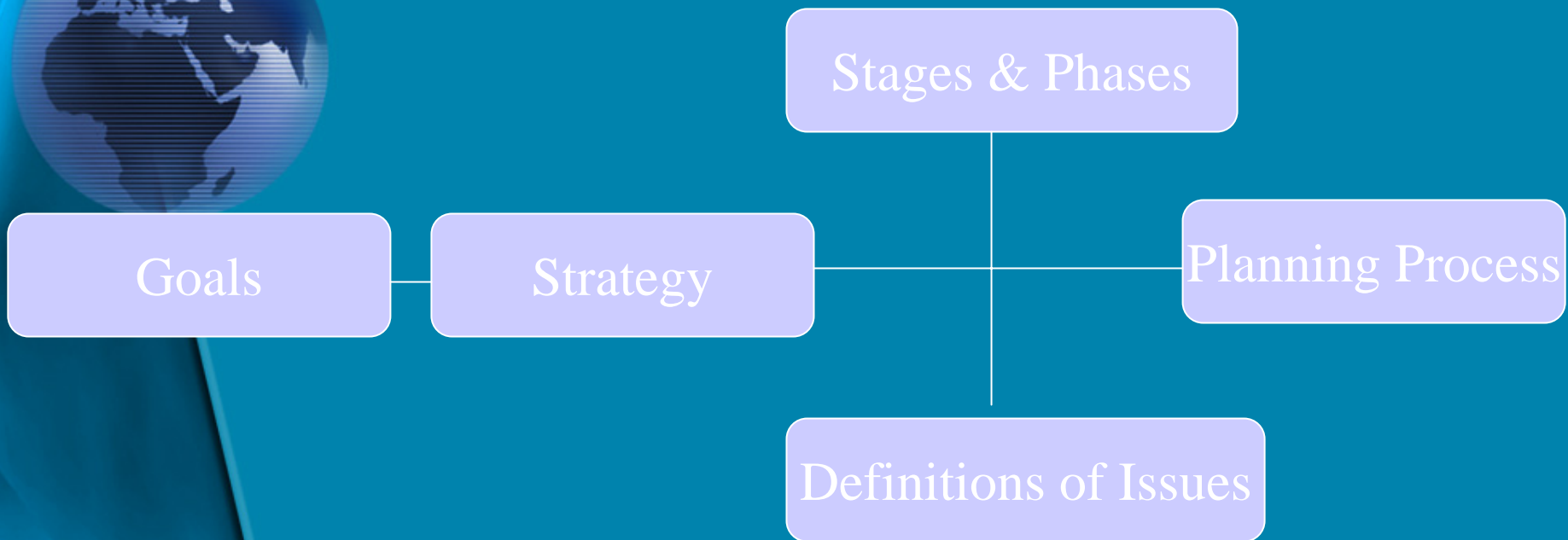
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1. Negotiation: strategies, tactics & planning
  2. Distributive Bargaining



# TOPIC 1.

## **Strategizing and Planning**

# Relationship between Key Steps in the Planning Process



Defining your goals

Develop strategies to achieve those goals

Define the issues and explore how they may change over the course of negotiation.

Set steps of negotiation

Create a plan to execute your strategies

# Step 1. Goals-The Objectives That Drive A Negotiation Strategy



Setting goals are the first step in the negotiation process

The goals set have direct and indirect effects on the negotiators strategy

# The Direct and Indirect Effects of Goals on Strategy

(4 aspects of how goals affect negotiation are important to understand):

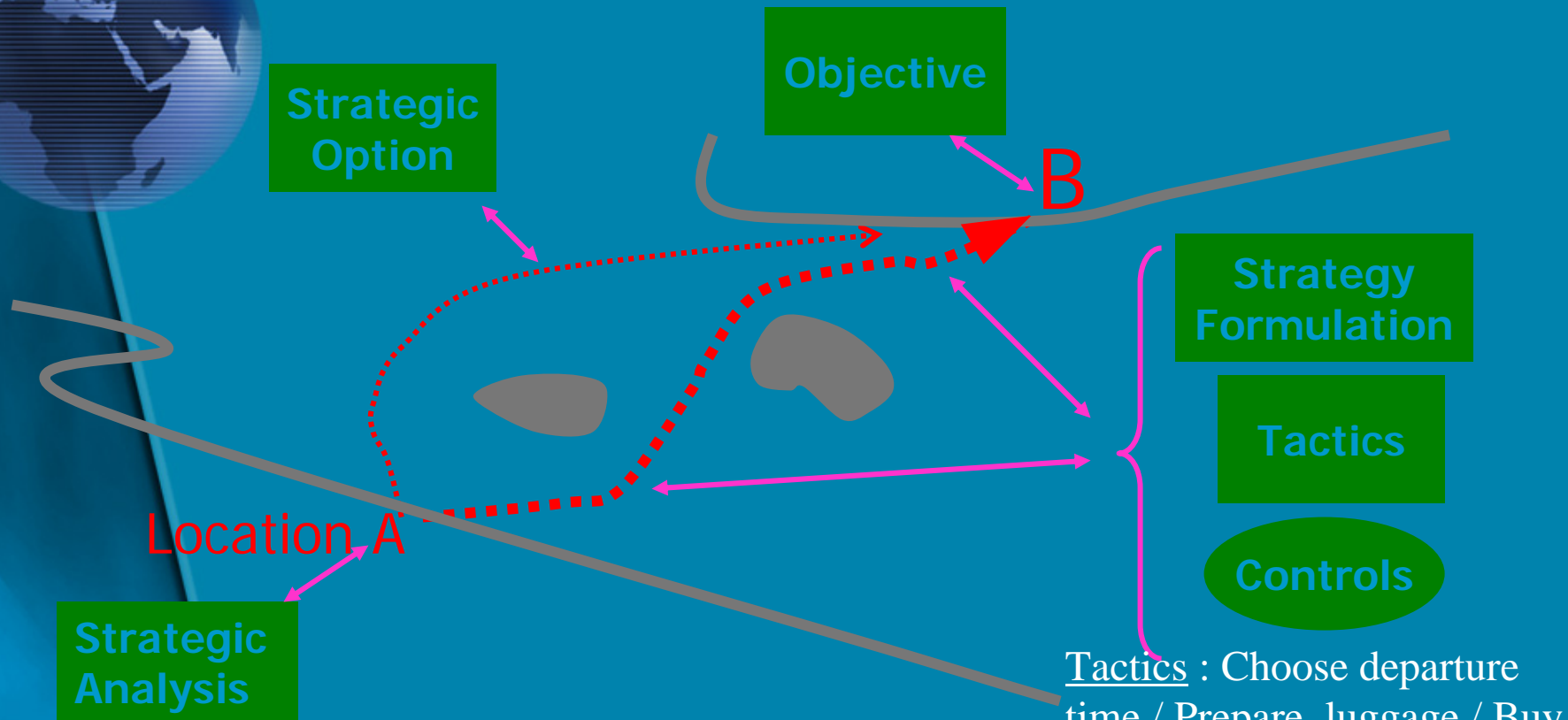
- Direct effects
  - Wishes are not goals
  - Our goals are often linked to the other party's goals (which creates the issue of negotiation)
  - There are limits to what our goals can be
  - Effective goals must be concrete/specific
- Indirect effects
  - Forging an ongoing relationship (crucial in Japan and East Asia)

## Step 2. Strategy, Tactics & Action

- **Strategy:** The overall plan to achieve one's goals in a negotiation
- **Tactics:** Short-term, adaptive moves designed to enact or pursue broad strategies
  - Tactics are subordinate to strategy
  - Tactics are driven by strategy
- **Action:** Sequences that will lead to the accomplishment of negotiation goals

# Strategy & Tactics: Illustration

Objective : To get from location A to location B as fast as possible and as cheaply as possible



**Strategic Analysis**

**Strategic Option**

**Objective**

**Location A**

**B**

**Strategy Formulation**

**Tactics**

**Controls**

Tactics : Choose departure time / Prepare luggage / Buy ticket / Take ear plugs / Board the helicopter / Fasten seat belt .....

Strategic Options : Bus? Rental car? Taxi? Helicopter shuttle? Boat? .....


Strategy : Take the helicopter shuttle



# Strategy & Tactics: Illustration

	<b>OBJECTIVES</b>	<b>STRATEGY</b>	<b>TACTICS</b>
<b>PURPOSE</b>	Set ultimate objectives	Meet ultimate objectives	Meet contributing sub-objectives
<b>TIME HORIZON</b>	Longer term	Long term	Short term
<b>EXAMPLE</b> (Process)	<ul style="list-style-type: none"> <li>• Improve profitability</li> <li>• ...</li> </ul> (Results to be attained before a certain date)	<ul style="list-style-type: none"> <li>• Gaining a competitive advantage based on lower production cost</li> </ul> (Set of carefully selected / integrated business priorities to achieve objectives)	<ul style="list-style-type: none"> <li>• Partnering for economies of scale</li> <li>• Acquiring new manufacturing technology</li> <li>• Improving change-over costs</li> </ul> (Actual actions and operations that are necessary to execute strategy)

# Strategic Options

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- The choice of strategy is reflected in the answers to two questions:
    - How much concern do I have in achieving the outcomes at stake in the negotiation?
    - How much concern do I have for the current and future quality of the relationship with the other party?

## Step 3a. Defining the Issues-The Process of “Framing” the Problem

Framing is about focusing, shaping and organizing the world around us

- Because people have different backgrounds, experiences, expectations, and needs, they frame people, events and processes differently
- Negotiators who understand framing may understand how to have more control over the negotiation process

# Interest, Rights, Power

Approaches to frames suggest parties in conflict use one of these three frames:

- **Interests:**
  - Concerned about needs, desires or wants ( seek for underlying interests of the other side)
- **Rights:**
  - Concerned about who is right (set standard or rule)
- **Power:**
  - Resolving a negotiation on the basis of power

# Frames as a Process of Issue Development

The definitions of issues often changes as the conflict evolves (*Patterns of Change*)

- The manner in which the thrust, tone and focus of a negotiation change is called *reframing*
- *During the negotiation process issues are shaped by: (1)arguments attacking the significance or stability of problems or the feasibility of solutions; (2) the logic of needs or positions*

# Step 3b. Stages and Phases of a Negotiation

1. **Preparation:** defining goals, thinking ahead how to work together with the other party
2. **Relationship building:** getting to know the other party, understanding each other, building commitment toward achieving mutually beneficial outcomes
3. **Information gathering:** learn about the issue, the other party's needs, feasibility of possible agreements, what may happen if you fail to reach an agreement
4. **Information using:** make the case you want to make for your preferred outcomes
5. **Bidding:** the process of making moves from your initial position to the actual outcome. Each party states their opening offer
6. **Closing the deal:** build commitment to the agreement achieved in the previous phase
7. **Implementing the agreement:** determining who needs to do what after the contract is signed.

## Step. 4. Getting Ready to Implement the Strategy: The Planning Process

- Define the issues
- Assembling the Issues and Defining the Bargaining Mix (the combined list of issues)

Prioritize issues

- Defining Your Interests

– Why you want what you want


Define your positions (opening bid or target point)

# Getting Ready to Implement the Strategy: The Planning Process (Cont.)

- **Know Your Limits and Alternatives** (limits are the points where you should decide to stop the negotiation)
- **Set Targets and Openings**
  - Target is outcome realistically expected
  - Opening is best that can be achieved
- **Assess Own Constituents**
  - Who else do I have to consider?
- **Analyze the Other Party**
  - Why do they want what they want? (try to understand their current resources, targets, openings, reputation, negotiation style, alternatives, strategies and tactics...)



# Getting Ready to Implement the Strategy: The Planning Process (Cont.)

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- What strategy do I want to follow?
  - How will I present issues to the other party?
    - How can I present my case clearly and refute the other parties arguments?
  - What protocol needs to be followed in this negotiation?
    - Agenda, location, time period, other parties, what if negotiations fail?, keeping track of what is agreed to



## TOPIC 2

# **Strategy and Tactics of Distributive Bargaining**

# The Distributive Bargaining Situation

- Goals of one party are in fundamental, direct conflict to another party
- Resources are fixed and limited
- Maximizing the share of resources is the goal
- Distributive negotiation is all about who gets (or pays) how much. It is also where more for me means less for you.

# Bargaining Range (zone of potential agreement)


The Buyer's view of the House Negotiation (Figure 3.2., p. 77)




<b>130</b>	<b>133</b>	<b>135</b>	<b>140</b>	<b>145</b>	<b>150</b>
<b>Seller</b> resistance point (inferred)	<b>Buyer</b> initial offer (public)	<b>Buyer</b> target point (private)	<b>Seller</b> target point (inferred)	<b>Seller</b> asking price (public)	<b>Buyer</b> resistance point (private)

- Bargaining zone is the spread between the resistance points
- The objective of both parties is to obtain as much of the bargaining range as possible (that is to get the settlement as close to the other party's resistance point as possible).

# The Role of Alternatives to a Negotiated Agreement

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- Alternatives give the negotiator power to walk away from the negotiation
    - If alternatives attractive negotiators can:
      - Set their goals higher
      - Make fewer concessions
    - If there are no attractive alternatives:
      - Negotiators have much less bargaining power


# Fundamental Strategies

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- \* Push for settlement near opponents resistance point
  - \* Get the other party to reduce their resistance point
  - \* Convince the other party that settlement is the best possible
  - \* Regardless of the general strategy taken, 2 tasks are important in all distributive bargaining situations: (1) discovering the other side's resistance point; (2) influencing the other party's resistance point. (see tactics P. 82)

# Influencing the Other Party's Resistance Point

1. The other party's resistance point will vary with his/her estimate of the cost of delay or aborting negotiations
2. The more a person needs a settlement, the more modest he/she will be to establish a modest resistance point
3. A resistance point varies directly with the value the other party attaches to that outcome

# The Tactical Tasks of Negotiators

- 
- Assess Outcome Values and the Costs of Termination for the Other Party
  - Manage the Other Party's Impressions
  - Modify the Other Party's Perceptions
  - Manipulate the Actual Costs of Delay or Termination



# Assess Outcome Values and the Costs of Termination for the Other Party

- Indirectly:
  - Determine information opponent used to set:
    - Target
    - Resistance points
- Directly:
  - Opponent reveals the information (see the Piano case, BOX 3.1., Textbook page 81)

# Manage the Other Party's Impressions

- Screen:
  - Say and do as little as possible
- Direct action to alter impressions:
  - Present facts that enhance one's position



# Modify the Other Party's Perceptions

- Make outcomes appear less attractive
- Make the cost of obtaining goals appear higher
- Make demands and positions appear more or less attractive to the other party-whichever suits your needs



# Manipulate the Actual Costs of Delay or Termination

- Plan disruptive action
  - Raise the costs of delay to the other party
- Form an alliance with outsiders
  - Involve (or threaten to involve) other parties that can influence the outcome in your favor
- Manipulate the scheduling of negotiations
  - One party is usually more vulnerable to delaying than the other

# Positions Taken During Negotiations


At the beginning of negotiation, each party takes a position. Typically, one party will change his/her position in response to information from the other party or a change of behavior from the other party. Changes in position are generally accompanied by new information concerning the other's intentions...

- Opening Offer
  - Where will you start? Should the opening offer be exaggerated or modest?
- Opening Stance
  - What is your attitude? Competitive (fighting to get the best on every point)? Moderate (willing to make compromise and concessions)?
- Initial Concessions
  - Should any be made? If so, how large?


# Positions Taken During Negotiations (cont.)

- The Role of Concessions
  - People usually accept the 1<sup>st</sup> or 2<sup>nd</sup> offer that is better than their target point; so negotiators should try to identify the other party's target point accurately and avoid conceding too quickly to that point.
- Patterns of Concession Making
  - The pattern contains valuable information
- Final Offer (Commitments)
  - “This is all I can do”

# Commitments: Tactical Considerations

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- **Establishing a Commitment** (bargaining position with some explicit or implicit pledge regarding the future course of action; it is often seen by the other party as a threat. Example “we must have a 10% volume discount in the next contract, or we will sign with your competitor next month”)
    - Three properties:
      - Finality
      - Specificity
      - Consequences
  - **Preventing the Other Party from Committing Prematurely**
    - Their commitment reduces your flexibility

## Commitments: Tactical Considerations (cont.)

- 
- Ways to Abandon a Committed Position
    - Plan a way out
    - Let it die silently
    - Restate the commitment in more general terms
    - Minimize the damage to the relationship if the other backs off



# Closing the Deal

- **Provide alternatives (2 or 3 packages)**
- **Assume the close** (for instance, by preparing contract-related documents)
- **Split the difference** (the most popular tactics; it assumes both parties started with fair opening offers)
- **Exploding offers** (contains an extremely tight deadline; the purpose is to convince the other party to accept the settlement and to stop considering alternatives)
- **Deal Sweeteners** (“I will give you X if you agree to the deal”)

# Dealing with Typical Hardball Tactics

Hardball tactics are designed to pressure the other party to do things they would not otherwise do. These tactics work better with poorly prepared negotiators. They also can backfire. (We don't recommend their use anyway, but be aware of them)

- Four main options:
  - Ignore them
  - Discuss them
  - Respond in kind
  - Co-opt the other party (befriend them)

# Typical Hardball Tactics

- **Good Cop/Bad Cop** (the 1<sup>st</sup> negotiator presents a tough opening position, punctuated with threats and intransigence; he leaves the room and the 2<sup>nd</sup> negotiator tries to reach a quick agreement before the first negotiator (bad cop) comes back.)
- **Lowball/Highball** (Start with a ridiculous low (high) opening offers; the principle is that the extreme offer will cause the other party to reevaluate his/her own opening offer and move closer to the resistance point)
- **Bogey** (playing up an issue of little importance)
- **The Nibble** (asking for a number of small concessions; example: after trying many different suits in a clothing store, tell the clerk that you will take the blue suit if a tie is included for free)

## Typical Hardball Tactics (cont.)

- Intimidation (try to pressure the other party using fear or anger)
- Aggressive Behavior
- Snow Job (overwhelm the other party with information)